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ABSTRACT

This module, one of six on teaching consumer matters to low-income adults, discusses banking skills. Topics include banking services (savings accounts, safety deposit boxes, Christmas clubs, loans, etc.), checking accounts (deposits, checkwriting, check registers, opening an account), how to use the check register (cancelled checks, deposits), balancing the checkbook, alternatives to checking accounts, consumer rights, materials available from the Office of Consumer Affairs, and sources of related information and assistance. The module includes examples and suggests ways in which the teacher can localize the information for students. (CT)

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USING BANKS

Teaching Banking Skills to Low-Income Consumers

By

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U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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TABLE OF CONTENTS

PAGE

I. BANKS: WHY AND WHY NOT? 1

II. TEACHING PEOPLE ABOUT THE SERVICES OF BANKS 3

A. CHECKING ACCOUNTS 3

1. Cost of Checking 3
2. Opening a Checking Account 4

A. MAKING A DEPOSIT 4
B. WRITING A CHECK 5
C. USING THE CHECK REGISTER 6

ONE EXAMPLE OF HOW TO USE THE CHECK REGISTER 7

3. Balancing the Checkbook 8

A. THE CANCELLED CHECKS 8
B. THE DEPOSITS 9

BALANCING THE CHECKBOOK 10

C. THE ARITHMETIC 11

B. SAVINGS ACCOUNTS 12
C. SAFETY DEPOSIT BOXES 13
D. CHRISTMAS CLUBS 13
E. LOANS 13
F. TRUST DEPARTMENTS 13
G. FOOD STAMPS 14
H. MONEY ORDERS AND TRAVELER'S CHECKS 14

III. ALTERNATIVES TO CHECKING ACCOUNTS 15

A. SAVINGS AND LOAN ASSOCIATIONS 15
B. MONEY ORDERS 15

PAGE

IV. HAVE A PROBLEM?..... 16

V. RELATED MATERIALS AVAILABLE ON A FREE-LOAN BASIS FROM THE OFFICE OF CONSUMER AFFAIRS..... 17

VI. OTHER SOURCES OF RELATED INFORMATION AND ASSISTANCE... 18

I. BANKS: WHY AND WHY NOT?

Banks provide a variety of services to people. Checking and savings accounts are the services most frequently associated with banks, but other services, such as loans, trusts, the selling of money orders, the distribution of food stamps, and the rental of safety deposit boxes are also extremely important. In this book, we will discuss the services that banks offer that are particularly useful to the low-income population. We will also discuss ways of teaching people how to use banks, and ways of determining whether or not a particular client should be encouraged to use a bank.

Bank accounts serve several purposes. One is that they provide a safe place to keep money. Another is that they provide a convenient and safe way to send money through the mail. A third is that they provide an accurate record of how a person's money is spent. If banks make money management so straightforward, why are people, and low-income people in particular, hesitant to use bank accounts?

There are two major obstacles to low-income consumers in using banks. The first is psychological: many low-income people associate having a bank account with having lots of money. In teaching low-income clients about bank accounts, it is important to stress that a bank account can be simply a convenient way to manage money, not an indication of wealth. Many people keep just enough money in a checking account to cover monthly bills. A client who seems unwilling to use a checking account may be making this connection between banks and wealth, and may be willing to consider using a checking account after this misconception is discussed.

A second major obstacle for the low-income population in using banks is practical: many low-income people are simply not familiar with banks. In general, banking skills are not formally taught in public schools, consequently an individual's exposure to using a bank comes primarily from the family. If a child is raised in a family which does not use banks, that child will probably grow up without learning any banking skills. For this person, a series of lessons in how to use banks can provide the individual with valuable information which simply has not been offered by any other source. The person then will be able to decide whether or not to use the services of

a bank based on accurate information about how banks work.

While some banks offer programs about banking, and have the staff available to teach people the details of writing checks, balancing a checkbook, and other important banking skills, many banks do not offer these services. Therefore, one of the most important services that people who work with low-income consumers may be able to provide is a workshop covering the details of using a bank. This book is designed to provide the background information necessary for preparation of such a program.

II. TEACHING PEOPLE ABOUT THE SERVICES OF BANKS

A. CHECKING ACCOUNTS

Checking accounts provide a way of keeping money safe and protected, while still fairly accessible. Using a checking account also provides a systematic and easy way of keeping track of how money is spent. However, people who have never used checking accounts and who do not feel comfortable with arithmetic need thorough and careful instruction in using a checking account before opening one.

Find out for your clients the checking services available in your area. Visit a local bank, and ask for samples of deposit slips, check registers, checks, and bank statements.

1. Cost of Checking. Find out the cost of checking accounts in your community. Some banks offer free checking services (although there is almost always a charge for the purchase of the checks themselves, in the vicinity of $5.00 for three hundred checks). Free checking with no conditions attached is probably the best service for most clients. Some banks offer free checking accounts only for senior citizens.

Some banks offer free checking in conjunction with other services, such as a credit card or a check guarantee system. With this system, free checking is available only if one of the other services is accepted. This choice may help a low-income person, although an individual with a low income may not have a sufficiently good credit history to qualify for a credit card. And, the possession of a credit card may prove problematic if the individual does not use the card carefully. A check guarantee system simply means that the bank will cover any check which the customer writes, treating the overdraft as a small, personal loan. An overdrawn check will, of course, have an interest charge added. Find out the amount of this interest. And urge your clients to use extreme caution with this service.

Excessive use of the check guarantee system can lead to serious financial overextension. Encourage your clients who have this service to use it only in the case of extreme emergency.

Some banks offer free checking if a minimum balance is maintained. This service is not usually beneficial to a low-income person, because a low-income person usually does not have a surplus amount of money available to sit in a checking account. And, if the person did have the minimum necessary amount of money, it might be wiser to put that money in an account in which it could earn some interest.

Some banks offer checking with a specific fee, usually a standard cost per month or per check. An account with a charge per check may be effective for a person who writes very few checks, as long as the person remembers to deduct the cost per check from the checkbook balance.

2. Opening a Checking Account. To teach a client how to use a checking account, have samples of all the necessary documents and papers available. Talk with the client about the advantages of opening a checking account. Stress that while keeping checking account records need not be complex, it *must* be accurate.

A. MAKING A DEPOSIT. The first step in opening a checking account is making a deposit. For people receiving welfare checks or social security checks, the service of direct deposit may be advantageous. With this service, the welfare or social security check is mailed directly to the bank, instead of to the client. Direct deposit has two advantages: first, it saves the client a trip to the bank, which for some elderly people or people without cars may be extremely important; and second, it offers protection against loss or theft of the check. The client simply needs to remember to write the deposit in the appropriate column in the check register.

If a client is not using direct deposit services, examine a sample deposit slip, and demonstrate to the client how to complete it. Show the client how to endorse the check by turning it over and signing it on the back, but caution the client *not* to endorse it until just before handing it to the bank teller. If the entire amount of the check is to be deposited, a wise idea is to write "for deposit only" above the signature as an additional protection against theft. The bank will provide a receipt of the deposit to the customer, either in the form of a small, printed slip of paper, or with an entry in the front of the customer's checkbook register validated by the teller.

Find out from the bank how long it takes a check to clear. In other words, find out how many days the client must wait from the day of depositing the check to the day the funds are recorded by the bank in the client's account. With local checks or state or federal government checks, the time for clearance may be shorter than the time for a check from out of state. Make sure that the client understands that, even though the bank has possession of the check, the client may not use that money until the check has cleared. Otherwise a check the client writes may bounce.

B. WRITING A CHECK. Next, the client must learn how to write a check. Use a sample check to demonstrate how to number the check, write the date and the person to whom the check is payable, write the dollar amount in numerals and words, and sign the check. Stress to the client never to write a blank check, that is, a signed check with no dollar amount filled in. Also, teach the client not to leave spaces where additional figures could be added, thereby increasing the value of the check, or causing it to become "raised".

C. USING THE CHECK REGISTER. Now examine the check register closely with the client. For a person who does not have much experience using arithmetic, the best way to maintain the check register is to record every transaction as it takes place, and to keep a running balance. For example, as soon as a deposit is made and clears, the client should add that amount to the balance, dating the entry in the register. Every time a check is written, the client should subtract the amount from the balance. If there is a service charge per check, that amount should also be subtracted at this time. Some people deduct the total amount of checks written only at the end of each page of the check register. To do so greatly increases the risk of overdrawing the account. Taking the time to subtract carefully after each check is written is the best assurance a client can have that checks will not bounce. Each entry should be dated, and the person to whom the check was written should be indicated. The purpose of the check should also be included. The chart on the next page shows one way to maintain a check register.

ONE EXAMPLE OF HOW TO USE THE CHECK REGISTER

CHECK NO.	DATE	CHECK ISSUED TO OR DESCRIPTION OF DEP.	AMOUNT OF CHECK		T	CHECK FEE	AMOUNT OF DEPOSIT		BALANCE 150	27
101	3/1	Jones Apartments, Inc.	135	00		.10			-135	10
		March rent							15	17
102	3/2	Smiths Food Store	10	23		.10			-10	33
		groceries							4	84
	3/4	Deposit					175	00	+175	00
									179	84
103	3/5	Electric Company	27	34		.10			-27	44
		February bill							152	40
104	3/6	Insurance company	22	75		.10			-22	85
		car insurance							129	55
105	3/9	The Local Bank	20	00		.10			-20	10
		furniture loan							109	45
	3/12	Deposit					55	00	+55	00
									164	45
106	3/13	D. J. Pediatrician, MD	10	00		.10			-10	10
		on account							154	35
107	3/13	P. A. Dentist, DDS	10	00		.10			-10	10
		on account							144	25
108	3/13	The Telephone Co.	15	99		.10			-15	59
		February bill							128	66
	3/14	Deposit					30	00	+30	00
									158	66

3. Balancing the Checkbook. The final part of checking to teach a client is how to balance a checkbook. While this aspect of maintaining a checking account is dreaded by many people, regardless of income, it is not a very difficult process. The purpose of reconciling a checkbook balance is to assure that the bank and the customer agree on the amount of money the customer has. The bank provides the customer with all cancelled checks received by the bank, and with a statement which lists deposits, checks received by the bank, any service charges as of the date of the statement, and the balance after each transaction. The last number in the column of balances on this statement is the amount of money that the customer has available in the account as of the date of the statement. This amount usually does not agree with the customer's final balance in the check register, because generally the customer has made deposits and written checks after the date of the statement. Therefore, the customer must balance the checkbook, that is, double check the balance in the account, allowing for deposits made and checks written since the statement was prepared. This assures that neither the customer nor the bank has made any errors.

A. THE CANCELLED CHECKS. The first step in balancing a checkbook is to put all the checks returned from the bank in numerical order. Then compare the cancelled checks with the check register. For every entry in the register for which a cancelled check has been returned, place a checkmark next to the entry. Encourage your clients to keep cancelled checks in a file. They can serve as receipts or proof of payment if a question or problem arises in the future.

Now, go back through the check register, and record any checks written which have not been returned by the bank. A bank statement usually has a section to assist in this process. Find the total of these outstanding checks. If there is a service charge per check, add in that amount.

OUTSTANDING CHECKS

NUMBER	AMOUNT
102	$10.23
104	22.75
107	10.00
108	15.49
	$58.47
	.40 SERVICE CHARGES
	$58.87

B. THE DEPOSITS. Next, examine the bank statement for all deposits recorded by the bank. Again, compare the bank statement with the check register, and place a checkmark next to each deposit entered in the check register which is also recorded by the bank. Now, go through the check register, and list on a separate piece of paper any deposits made which have not yet been recorded by the bank, that is, any deposits in the register which are not checked. Add the total of these deposits:

OUTSTANDING DEPOSITS

$55.00
30.00
$85.00

BALANCING THE CHECKBOOK

CHECK NO.	DATE	CHECK ISSUED TO OR DESCRIPTION OF DEP.	AMOUNT OF CHECK		T	CHECK FEE	AMOUNT OF DEPOSIT		BALANCE	
									150	57
101	3/1	Jones Apartments, Inc.	135	00	✓	.10			-135	10
		March rent							15	17
102	3/2	Smith's Food Store	10	23		.10			-10	33
		groceries							4	84
	3/4	Deposit			✓		175	00	+175	00
									179	84
103	3/5	Electric Company	27	34	✓	.10			-27	44
		February bill							152	40
104	3/6	Insurance Company	22	75		.10			-22	85
		car insurance							129	55
105	3/9	The local Bank	20	00	✓	.10			-20	10
		furniture loan							109	45
	3/12	Deposit					55	00	+55	00
									164	45
106	3/13	D J Pediatrician, MD	10	00	✓	.10			-10	10
		on account							154	35
107	3/13	F.A. Dentist, DDS	10	00		.10			-10	10
		on account							144	25
108	3/13	The Telephone Co	15	49		.10			-15	59
		February bill							128	66
	3/14	Deposit					30	00	+30	00
									158	66

C. THE ARITHMETIC. Next, turn the statement over. On the back of most bank statements is usually a place to reconcile the checkbook, and instructions in how to do so. Write the final balance from the front of the statement in the appropriate place on the back. Then add in the total of the deposits not yet recorded by the bank:

BALANCE	$132.53
DEPOSITS	+ 85.00
NEW TOTAL	$217.53

Now write the total of the outstanding checks beneath the total of the bank's balance and your additional deposits. Subtract:

NEW TOTAL	$217.53
OUTSTANDING CHECKS	- 58.87
BALANCE	$158.66

Finally, look at the balance you have recorded in your check register. Subtract any service charges made by the bank which you have not yet recorded. Compare this new balance with the amount you have computed on the statement. They should be equal. If they are, congratulations!

If these amounts are not equal, double check all your arithmetic. Be sure you have copied numbers correctly from one page to the next. If you still cannot account for the discrepancy, call the customer service department of your bank for additional suggestions. Some banks have employees who are specially trained to assist in check reconciliation. They may ask you to bring your statement, cancelled checks, and check register to the bank for assistance.

B. SAVINGS ACCOUNTS

Savings accounts provide a way of keeping money safe for an extended period of time. The main advantage in using a savings account is that the money in the account earns interest. That is, the bank pays the customer a percentage of the money the customer deposits for the use of the customer's money.

Many people feel that low-income consumers do not need to be concerned with savings accounts. This is not so. Even the poorest person should attempt to eke out a few dollars to save each month for the possibility of an emergency.

The most important thing to consider in choosing a savings account is the way in which interest is calculated. The best type of interest is calculated continuously from the day the money is deposited until the day it is withdrawn. In this type of account, all the money earns interest the entire time it is in the bank.

Banks vary in the percentage of interest they pay. Currently rates vary from 5% per year for simple savings accounts to close to 8% per year for certain special accounts. There is also a variation in the frequency with which banks calculate interest, ranging from continuously to quarterly. The more frequently interest is calculated, the higher the actual interest will be.

Help your clients understand the language that banks use, so that they can understand how interest is calculated by different banks and, therefore, be able to shop around for the highest yield. However, differences in interest rates may be negligible in the case of low-income people who are saving only small amounts of money. The geographical convenience of a bank may well more than offset a difference in savings differentials.

Another point to explore carefully is the number of withdrawals allowed by the bank per quarter. Some banks penalize customers by reducing the percentage of interest paid if more than a specified number of withdrawals is made. Make sure that your clients understand this. Stress that a savings account is a way to keep money for an *extended* period of time.

C. SAFETY DEPOSIT BOXES

Safety deposit boxes are simply metal boxes a customer can rent in a bank for the purpose of keeping important articles safe. Rent starts as low as $10.00 per year. A safety deposit box is an excellent place to keep a copy of birth certificates, marriage or divorce papers, death certificates, bonds, insurance policies, wills, and any other important documents.

D. CHRISTMAS CLUBS

Christmas Clubs are simply prearranged savings plans. Customers deposit a certain amount of money each week for the specific purpose of having that money available at holiday time in December. This can be an excellent and easy way for low-income people to save money. Do check the interest rates on these accounts, however, as some banks do not pay any interest on their Christmas Clubs. There are penalties for early withdrawal of funds.

E. LOANS

Banks are also in the business of lending money to customers. If you are working with a client who will need a loan, encourage the client to apply to a bank for the loan. However, many poor people and people on welfare may have difficulty securing a low interest loan from a bank because such people may be considered high credit risks. In general, non-professional people who have worked less than one year will have trouble obtaining a loan from a bank, and will need to go to a finance company (which will generally charge higher interest rates than a bank) instead.

F. TRUST DEPARTMENTS

The main service a low-income person would want to seek from a trust department would be the review of a will. While some trust departments help customers write wills, most do not, because to do so would be a conflict of interest on the part of the bank holding the customer's money.

G. FOOD STAMPS

Many banks provide food stamps to recipients as an additional service. Call the banks or welfare departments in your area to find out which banks offer this service.

H. MONEY ORDERS AND TRAVELER'S CHECKS

Most banks sell money orders and traveler's checks. Compare the prices of these two services at different banks, and steer your clients toward the banks with the lowest prices.

III. ALTERNATIVES TO CHECKING ACCOUNTS

A. SAVINGS AND LOAN ASSOCIATIONS

A person who writes only one or two checks per month may wish to consider using a savings and loan association account instead of a checking account. A savings account at a savings and loan association may offer a slightly higher interest rate than a comparable savings account at a bank. Checking accounts are not available at savings and loan associations, however many savings and loan associations will write one or two checks per month for a customer.

B. MONEY ORDERS

While generally a more expensive method of handling money than using a checking account, the use of money orders may be an excellent compromise for the client who does not want to use cash for all financial transactions, but who cannot handle a checking account. Money orders currently cost fifty cents apiece in most areas. They provide a receipt of the transaction, and most importantly, they are fairly easy to understand. A money order represents the exact amount of money the customer paid for it (minus the service charge). Many people who cannot handle a checking account can manage their money very well with a system using money orders.

IV. HAVE A PROBLEM?

As with any business, consumers have the right to expect good service from banks. If you or a client has a problem with a bank, contact the bank manager to discuss the problem. As with any complaint, be cordial and concise in your description of the complaint. If the bank manager cannot help you, call the main branch of the bank and ask for the branch administrator for that bank. If you still do not receive satisfaction, you can change branches or banks. You can also call the State Corporation Commission, Bureau of Financial Institutions in Richmond to register your complaint. Their telephone number is listed on page 18 of this book.

V. RELATED MATERIALS AVAILABLE ON A FREE-LOAN BASIS FROM THE OFFICE OF CONSUMER AFFAIRS

TITLE	TOPIC
The Banking Series *a filmstrip series*	*how to use banks*
The Banking Workbook *a workbook*	*practical exercises to help teach banking skills*

VI. OTHER SOURCES OF RELATED INFORMATION AND ASSISTANCE

BANKS

COMPTROLLER OF THE CURRENCY Treasury Department, Washington, DC	202 566-2000	
CONSUMER AFFAIRS OFFICES		
Alexandria Office of Consumer Affairs	703 750-6675	
Arlington County Office of Consumer Affairs	703 558-2142	
Fairfax County Department of Consumer Affairs	703 691-3214	
Newport News Office of Consumer Affairs	804 247-8616	
Norfolk Division of Consumer Protection	804 441-2823	
Prince William County Office of Consumer Affairs	703 221-4156	
Roanoke Consumer Protection Division	703 981-2583	
State Offices of Consumer Affairs		
-- Northern Virginia Branch Office	703 573-1286	
-- Richmond Office	804 786-2042	
	800 552-9963	(toll-free)
Virginia Beach Consumer Protection Office	804 427-4421	
FEDERAL RESERVE BOARD Richmond	804 643-1250	
LIBRARIES		
STATE CORPORATION COMMISSION Bureau of Financial Institutions	804 786-3657	
	800 552-9760	(toll-free)
VIRGINIA BANKERS ASSOCIATION	804 643-7469	